

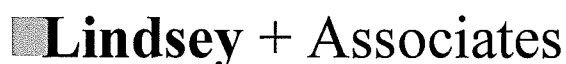
CITY OF SEAT PLEASANT, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2010

CITY OF SEAT PLEASANT

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JUNE 30, 2010

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606 Baltimore Avenue
Suite 101
Towson, MD 21204

410.825.1994 phone
301.596.1996 DC phone
410.825.1997 fax

www.acpafirm.com

Independent Auditor's Report

Honorable Mayor
Members of the City Council
City Manager
City of Seat Pleasant, Maryland

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Seat Pleasant, Maryland, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Seat Pleasant's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Seat Pleasant, Maryland, as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis and the budgetary comparison information on pages 3 through 9 and 28, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Seat Pleasant, Maryland's basic financial statements. The supplemental schedule on page 29 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

December 21, 2010

Runday + Associates, LLC

CITY OF SEAT PLEASANT, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

Our discussion and analysis of the financial performance of the City of Seat Pleasant provides an overview of the City's financial activities for the year ended June 30, 2010. Please read it in conjunction with the transmittal letter and the City's financial statements.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities (net assets) at June 30, 2010 by \$5.03 million. Of this amount, \$3.00 million is unrestricted and may be used to meet the City's future obligations. All of the \$3.00 million is related to governmental activities, which includes the General Fund. The unrestricted net assets are available for future General Fund expenditures. The remaining portion of \$2.03 million represents the City's investment in Capital Assets, net of related debt.

The unreserved and undesignated fund balance for the General Fund represented 59.6 percent of total General Fund expenditures compared to the Council adopted target of 25 percent.

In comparison with the prior fiscal year, the City's total net assets increased by \$739,532. This is primarily due to increases in property tax revenue and grant revenue. During the current fiscal year, the City increased its current assets.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities are government-wide statements that provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements report the City's operation in more detail than the government-wide statements by providing information about the City's most significant funds and individual parts.

**CITY OF SEAT PLEASANT, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

REPORTING THE CITY AS A WHOLE

THE STATEMENT OF NET ASSETS AND THE STATEMENT OF ACTIVITIES

One of the most important questions asked about the City's finances is, "Is the City, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report changes in the City's net assets. You can think of the City's net assets (the difference between assets and liabilities) as one way to measure the City's financial health or position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's infrastructure to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we have only one kind of activity:

Governmental Activities – All of the City's services are reported here, including the police, general administration, highways, and sanitation. Taxes, franchise fees, fines and forfeitures, license fees, and state and county grants or payments finance most of these activities.

**CITY OF SEAT PLEASANT, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

REPORTING THE CITY'S FUNDS

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the most significant funds-not the City as a whole. All of the City's services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation at the right of the fund financial statements.

THE CITY AS A WHOLE

GOVERNMENTAL ACTIVITIES

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenditures and Changes in Fund Balance. You will notice that expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

General Government	Building Permit Fees, Business License Fees, State Grants, Franchise Fees, Cable Company. Grants
Highways	Highway User Revenues, State Grants, Community Development Grants
Sanitation/Waste Removal	County Rebates, Special Trash Fees
Police Department	State Grants, Fines, Report Fees, Property Forfeitures, Donations

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted to a specific purpose.

**CITY OF SEAT PLEASANT, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

GOVERNMENT-WIDE FINANCIAL INFORMATION

The following is selected information as of June 30, 2010, and for the previous year, which is provided for comparison purposes.

	Governmental Activities	
	2009	2010
Current assets	2,503,830	3,205,695
Capital assets	2,491,603	2,416,750
Total assets	4,995,433	5,622,445
Current liabilities	261,929	253,986
Long-term liabilities	440,296	335,719
Total liabilities	702,225	589,705
Net assets		
Invested in capital assets, net of related debt	2,015,958	2,055,786
Restricted	-	-
Unrestricted	2,277,250	2,976,954
Total net assets	4,293,208	5,032,740
Total liabilities and net assets	4,995,433	5,622,445
Program revenues		
Charges for services	404,558	371,891
Operating grants and contributions	937,691	443,979
Capital grants and contributions	-	-
General revenues		
Income taxes	249,732	221,168
Property taxes	2,397,497	2,777,053
Other	103,321	111,394
Total general revenues	2,750,550	3,109,615
Transfers	-	-
Total revenues and transfers	4,092,799	3,925,485
Expenses		
General government	962,284	825,981
Public safety	1,083,694	1,063,321
Public works	1,056,297	1,110,955
Recreation and community services	859,987	168,524
Refuse collection	-	-
Total expenses and transfers	3,976,896	3,185,953
Change in net assets	115,903	739,532
Net assets, beginning of year	4,177,305	4,293,208
Net assets, end of year	4,293,208	5,032,740

**CITY OF SEAT PLEASANT, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

THE CITY'S FUNDS

The following schedule presents a summary of general revenue and expenses for the fiscal year ended June 30, 2010 and percentage of increases and decreases in relation to the prior year.

	FY2010 Amount	Percent of Total	Increase (Decrease) From FY2009
Revenues			
Taxes	\$ 2,862,728	76%	\$ 216,630
Intergovernmental	443,979	12%	(493,712)
Charges for services	371,891	10%	(32,667)
Fines, licenses and permits	94,453	2%	22,495
Interest income	8,671	0%	(10,059)
Miscellaneous	5,707	0%	(4,363)
Total Revenues	<u>\$ 3,787,429</u>	<u>100%</u>	<u>\$ (301,676)</u>
Expenditures			
General government	\$ 765,509	24%	\$ (113,348)
Public safety	965,015	30%	(30,362)
Public works	1,061,336	33%	59,055
Recreation and culture	168,795	5%	(691,192)
Capital outlays	118,615	4%	(242,722)
Debt service	131,853	4%	47,142
Total Expenditures	<u>\$ 3,211,123</u>	<u>100%</u>	<u>\$ (971,427)</u>

A more detailed discussion of the City's revenue results for FY 10 as compared to FY 09 can be found in the General Fund Budgetary Highlights section of this MD&A.

GENERAL FUND HIGHLIGHTS COMPARED TO LAST YEAR

Revenues amounted to \$3.78 million in fiscal year 2010, a decrease of \$301,676 from fiscal year 2009. The decrease in revenues is attributable to cut backs in state shared revenues. However, the decreases in revenues were offset by a reduction of \$971,427 in expenditures. The major factor attributing to the reductions in expenditures was leaving positions vacant in the Public Works and Police Departments.

**CITY OF SEAT PLEASANT, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

CAPITAL ASSETS

The City's capital assets for its governmental and business-type activities as of June 30, 2010, amounted to \$2.5 million (net of accumulated depreciation). Capital assets include land, historical treasures, building and improvements, improvements other than buildings, and machinery and equipment. During the year the city made capital outlays of \$118,615.

More detailed information about the City's capital assets is presented in Note 5 to the basic financial statements.

DEBT

At year-end, the City had no bonds outstanding and other long-term obligations are as follows.

<u>Outstanding Debt</u>	<u>Balance</u>
BoA loan	\$ 136,193
Suntrust loan	224,771
Compensated absences	93,990
Total outstanding debt	<u>\$ 454,954</u>

Neither Maryland State law nor the City Charter mandates a limit on municipal debt. On May 10, 1999, the City Council established a policy to limit debt to 0.8 percent of assessed value of taxable property. At June 30, 2010 assessed value of such property totals \$244,634,086, the debt limit was \$1,800,000 and the actual outstanding debt was \$454,954 approximately 25.3% of the debt limit. The city retired \$114,681 of it long term obligations during fiscal year 2010.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City is located in the northern part of Prince George's County. Although considered to be in the Washington, DC metropolitan area, the City's location also gives it easy access to Baltimore and Annapolis. The Baltimore/Washington area is considered to be one of the fastest growing regions in the nation. Proximity to the Baltimore/Washington area and federal government spending generally contributes to the City's stability.

The City's total assessed value for personal property continues to grow. The growth has been attributed primarily due to increasing assessments.

The City issued less permits for new home construction during FY2010 as compared to FY2009. The decrease in new home construction reflects the decreased level of building activity in the City. Commercial and residential building permit revenue, as well as street

**CITY OF SEAT PLEASANT, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

and storm drain permit fees have decreased, reflecting a decline in the number of homes being built within City limits.

The majority of homes in the city are owner-occupied single-family homes that the 2000 census placed in the price range of \$100,000 to \$195,000 with a median value of \$145,000.

The Maryland Department of Labor, Licensing and Regulation reported the unemployment rate in Prince George's County at 4.9 percent and the State at 4.6 percent on June 30, 2003. The 2000 Census showed the median income for the City of Seat Pleasant at \$47,050. The income level exceeds the State of Maryland at \$45,289 and the United States at \$37,005.

The City in the future will be preparing a financial forecast as a component of developing the annual operating budget and capital improvements program. The assumptions in the forecast will be reviewed with the City Council as background for decisions about revenue projections and estimated costs.

The adopted budget for FY2011 does not propose any tax rate changes. The real and personal property tax rates remain at \$.58 and \$11.00 per \$100 of assessed valuation, respectively. In the FY2011 Budget, General Fund revenues and transfers from other funds are budgeted to increase by .8 percent from the FY2010 budget year. General property taxes make up approximately 66 percent of General Fund budgeted revenues and transfers from other funds. General Fund expenditures and transfers to other funds are budgeted to increase by .8 percent from the FY2010 budget year.

The State of Maryland's budget situation mirrors that of most states - significant deficits in the current and upcoming year are projected, along with gloomy forecasts well into the latter half of the decade. The City felt the impact of these financial woes in FY2003 when the State reduced the amount of Highway User Revenue distributed to local governments. As a result, the City has lost approximately \$15,000 annually since FY2003. In FY2010, the City received 10% of its allocation projected in April 2010, which will result in a loss of \$146,000. Fortunately, current state income tax proceeds, the City's largest source of state shared revenues, have remained relatively stable over the last few years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer at 6301 Addison Road, Seat Pleasant, MD 20722.

CITY OF SEAT PLEASANT, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Total
ASSETS		
Current Assets		
Cash and cash equivalents - unrestricted	\$ 1,533,830	\$ 1,533,830
Cash and cash equivalents - restricted	41,222	41,222
Investments	1,299,223	1,299,223
Amounts due from other governments	73,681	73,681
Other accounts receivable	18,956	18,956
Personal property taxes receivable, net of allowance	184,888	184,888
Accounts receivable - income taxes	46,039	46,039
Prepaid expenses	7,856	7,856
Total Current Assets	<u>3,205,695</u>	<u>3,205,695</u>
Noncurrent Assets		
Net capital assets	<u>2,416,750</u>	<u>2,416,750</u>
Total Noncurrent Assets	<u>2,416,750</u>	<u>2,416,750</u>
TOTAL ASSETS	<u><u>\$ 5,622,445</u></u>	<u><u>\$ 5,622,445</u></u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 92,506	\$ 92,506
Amounts held in escrow and deposits	42,245	42,245
Current portion of long-term debt	119,235	119,235
Total Current Liabilities	<u>253,986</u>	<u>253,986</u>
Noncurrent Liabilities		
Compensated absences	93,990	93,990
Loans payable - long-term	241,729	241,729
Total Noncurrent Liabilities	<u>335,719</u>	<u>335,719</u>
TOTAL LIABILITIES	<u>589,705</u>	<u>589,705</u>
NET ASSETS		
Invested in capital assets, net of related debt	2,055,786	2,055,786
Restricted	-	-
Unrestricted	2,976,954	2,976,954
TOTAL NET ASSETS	<u>5,032,740</u>	<u>5,032,740</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,622,445</u></u>	<u><u>\$ 5,622,445</u></u>

The accompanying notes to these financial statements are an integral part of this statement.

CITY OF SEAT PLEASANT, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Direct Expenses	Indirect Expense Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Total
Primary Government							
Governmental Activities:							
General government	\$ 825,981	\$ 7,159	\$ 371,891	\$ 142,671	\$ -	\$ (318,578)	\$ (318,578)
Public safety	1,063,321	10,013	-	220,626	-	(852,708)	(852,708)
Public works	1,110,955	-	-	80,682	-	(1,030,273)	(1,030,273)
Recreation and culture	168,524	-	-	-	-	(168,524)	(168,524)
Interest expense	17,172	(17,172)	-	-	-	-	-
Total Governmental Activities	<u>3,185,953</u>	<u>-</u>	<u>371,891</u>	<u>443,979</u>	<u>-</u>	<u>(2,370,083)</u>	<u>(2,370,083)</u>
Total Primary Government	<u>\$ 3,185,953</u>	<u>\$ -</u>	<u>\$ 371,891</u>	<u>\$ 443,979</u>	<u>\$ -</u>	<u>\$ (2,370,083)</u>	<u>\$ (2,370,083)</u>
General revenues:							
Taxes							
						221,168	221,168
						2,777,053	2,777,053
						2,563	2,563
						94,453	94,453
						8,671	8,671
						5,707	5,707
						<u>3,109,615</u>	<u>3,109,615</u>
Transfers in (out)							
						-	-
Change in Net Assets							
						739,532	739,532
Net Assets, beginning of year							
						4,293,208	4,293,208
Net Assets, end of year							
						<u>\$ 5,032,740</u>	<u>\$ 5,032,740</u>

The accompanying notes to these financial statements are an integral part of this statement.

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2010**

The accompanying notes to these financial statements are an integral part of this statement.

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

	General Fund	Total Governmental Funds
REVENUES		
Taxes	\$ 2,862,728	\$ 2,862,728
Intergovernmental	443,979	443,979
Charges for services	371,891	371,891
Fines, licenses, permits	94,453	94,453
Interest Income	8,671	8,671
Miscellaneous	5,707	5,707
Total Revenues	3,787,429	3,787,429
EXPENDITURES		
Current Operations		
General government	765,509	765,509
Public safety	965,015	965,015
Public works	1,061,336	1,061,336
Recreation and culture	168,795	168,795
Capital outlays	118,615	118,615
Debt Service		
Principal	114,681	114,681
Interest	17,172	17,172
Total Expenditures	3,211,123	3,211,123
Excess of revenues over (under) expenditures and other financing uses	576,306	576,306
Other financing sources (uses)		
Transfers in (out)	-	-
Proceeds from long-term debt	-	-
Total other financing sources (uses)	-	-
Excess of revenue and other financing sources over (under) expenditures and other financing uses	576,306	576,306
Fund balance, beginning of year	2,263,711	2,263,711
Fund balance, end of year	\$ 2,840,017	\$ 2,840,017

The accompanying notes to these financial statements are an integral part of this statement.

CITY OF SEAT PLEASANT, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Seat Pleasant, Maryland (the City) was established in 1931 and is governed by an elected mayor and an elected city council. The City provides the following services as authorized by its charter: public safety (police), highways and streets, sanitation, public improvements and general administrative services. However, the City is located within Prince Georges County, Maryland, and all infrastructure within the City are included in the County's infrastructure. The City's major sources of revenue are real estate, income and usage taxes.

The accounting policies of the City conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

In evaluating how to define the City of Seat Pleasant, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set by the Governmental Accounting Standards Board. Component units are legally separate organizations for which the elected officials of the City are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. Based upon the application of criteria set by the Governmental Accounting Standards Board, there are no separate component units of the City.

Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The City's funds are grouped into one broad fund category.

Governmental funds include the General Fund. The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

CITY OF SEAT PLEASANT, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Accounting

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. At June 30, 2010, the City had no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, including the reclassification or elimination of internal activity (between funds). This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, and program revenues for each segment of the business-type activities of the City, if any, and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect costs are allocated to programs. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment, if any, is self-financing or draws from the general revenues of the City. Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds, if any, are aggregated and presented in a single column.

CITY OF SEAT PLEASANT, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Governmental Funds

City activities pertaining to general government, public works, capital projects, recreation, and culture are reported in the governmental funds. All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e. collectible within the current year or within two months of year-end and available to pay obligations of the current period). These include property taxes, franchise taxes, investment earnings, charges for services and intergovernmental revenues.

Some revenues, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, some revenues are recorded as receivables and deferred until they become available.

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on long-term debt, which has not matured, are recognized when paid.

Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition, excluding investments in the State of Maryland Local Government Investment Pool.

CITY OF SEAT PLEASANT, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Investments

In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments," investments held at June 30, 2010 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Receivables

Personal property taxes receivable net of allowances for uncollectible accounts of \$691,668 were \$184,888. Governmental funds report deferred revenues in connection with receivables for revenues not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Deferred revenues pertaining to property taxes at year end were \$184,888.

Deferred Income Tax Revenue

At June 30, 2010, the Town was advised by the State of Maryland that \$46,039 of the Local Tax Reserve Fund was allocable to the Town. In accordance with the provision of GASB No. 33, the Town recorded receivable and deferred income tax revenue in the amount of \$46,039 in the fund financial statements. Changes in this amount have been reflected as current year income tax revenue in the government-wide financial statements in accordance with full accrual accounting.

The components of deferred revenue at year-end are as follows:

<u>Governmental Funds</u>	<u>Unavailable</u>	<u>Unearned</u>
Personal property taxes	\$ 184,888	\$ -
Income taxes	46,039	-
	<u>\$ 230,927</u>	<u>\$ -</u>

CITY OF SEAT PLEASANT, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Inventory of Supplies

Inventories, if any, are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds, if any, when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure such as bridges, roads, curbs and gutters, streets, sidewalks, drainage systems and lighting systems are capitalized. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated. In accordance with GASB No. 51, intangible assets are recognized if they are identifiable, and are amortized over their useful lives if they do not have indefinite useful lives.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 20 years.

Restricted Reserves

The City uses restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Interest Expense

Interest is expensed as incurred except when interest is incurred during the construction period and is capitalized as part of the cost of the asset.

Compensated Absences

The City accrues unused vacation pay in the period the fund liability is incurred. Full-time employees are granted vacation leave based on the number of continuous service years. Upon termination, the employees will be paid the number of days accrued. Vested annual leave is expensed in the appropriate fund. As of June 30, 2010 the balance of compensated absences was \$93,990.

CITY OF SEAT PLEASANT, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues, expenditures, and expenses. Actual results could vary from the estimates that were used.

Equity Classifications

Equity is classified as net assets and is displayed in three components:

Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first and then unrestricted resources as needed.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

Budget Requirements, Accounting, and Reporting

Requirements for all funds:

Annual budgets are adopted for all City funds. The City Council may subsequently amend the budget and the budget was amended during fiscal year 2010. For day-to-day management control, expenditures may not exceed budget at the major account level. The City prepares an annual operating budget on a basis consistent with generally accepted accounting principles (GAAP).

CITY OF SEAT PLEASANT, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposit Policies

Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, banker's acceptance, and other available bank investments provided that approved securities are pledged to secure those funds deposited in an amount equal to the amount of those funds. In addition, the City can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law and can invest in the State of Maryland Local Government Investment Pool.

The City's deposits are insured or collateralized with securities held by the City, its agent, or by the pledging financial institution's trust department or agent in the name of the City.

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits to be insured by FDIC, and balances exceeding FDIC limits be secured by collateral valued at 102 percent of principal and accrued interest. Collateral is to be held by the City, its agent, or by the pledging financial institution's trust department or agent in the name of the City.

At year-end, the carrying amount of the City's deposits was \$1,574,752 and the bank balance totaled \$1,618,999. Of the bank balances, only \$250,000 was insured by Federal Depository Insurance Corporation (FDIC). At year end, the City's bank balances were not exposed to any custodial credit risk because all deposits were fully collateralized. Restricted cash consisted of the following at June 30, 2010:

Police seizure fund	\$ 39,001
Junior police fund	2,221
	<u>\$ 41,222</u>

Investment Policies

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City has no policy regarding credit risk.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's policy provides that to the extent practicable, investments are matched with anticipated cash flows.

CITY OF SEAT PLEASANT, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy regarding credit risk is to invest in the Maryland Local Government Investment Pool and certificates of deposit which are collateralized, thereby mitigating the concentration of credit risk.

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. City policy provides that investment collateral is held by a third party custodian with whom the City has a current custodial agreement in the City's name.

Generally, the City's investing activities are managed by the City Treasurer. Investing is performed in accordance with investment policies adopted by the City Council complying with State Statutes and the City Charter. City funds may be invested in: 1) U.S. Treasury obligations; 2) U.S. Government Agency and U.S. Government-sponsored instrumentalities; 3) Repurchase agreements (master repurchase agreement required); 4) Collateralized certificates of deposit (only Maryland commercial banks) corporation, special district authority or political subdivision thereof, or in any fund or trust that invests only in the securities described in this paragraph.

Investments

The City has invested at June 30, 2010, \$1,028,990 in the State of Maryland Local Government Investment Pool (MLGIP) and \$84,215 in certificates of deposit. The pool is under the administrative control of the State's Treasurer's Office. The City's investments are shown by type, carrying amount, fair value, cost and level of risk assumed in holding the various accounts. Investments are carried at cost which approximates market. The fair value of MLGIP investments is determined daily. PNC Bank is currently contracted to operate the Pool, and may invest in any instrument permitted by Section 6-222 of the State Finance and Procurement Article. The City's fair value position in the Pool is the same as the value of pool share.

CITY OF SEAT PLEASANT, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

As of June 30, 2010, the City had the following investments:

Types of Investments	Fair Value/ Carrying Amount	Cost	Average Credit Quality/ Ratings	Weighted Average Days to Maturity
MLGIP	\$ 1,028,990	\$ 1,028,990	AAAm	44
Certificates of Deposit issued by:				
Bank of America	84,215	84,215	N/A	32
Bank of America	186,018	186,018	N/A	161
Certificates of deposit	270,233	270,233	N/A	8
Total	<u>\$ 1,299,223</u>	<u>\$ 1,299,223</u>		

Notes: 1- Ratings are provided where applicable to indicate associated **Credit Risk**. N/A indicates not applicable.

2- **Interest Rate Risk** is estimated using either duration or weighted average days to maturity depending on the respective policy.

NOTE 4 – PROPERTY TAX

Real estate and personal property taxes are levied based on the State of Maryland assessments. Property taxes include amounts levied against all real and public utility property and tangible personal property which are used in businesses located in the City. Real property taxes are levied on the first day of July on the assessed value. When taxes are overdue, a lien is placed against the property. Taxes are due and payable on the first day of July in the year for which they are levied and become overdue and in arrears on the first day of the following October. Penalties and interest are charged on any unpaid taxes. The property tax rate for fiscal year 2010 is \$.58 per \$100 of assessed value for real property, and \$11.00 per \$100 of assessed value for personal property.

CITY OF SEAT PLEASANT, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ 628,830	\$ -	\$ -	\$ 628,830
Art/historical treasures	518	-	-	518
Subtotal	629,348	-	-	629,348
Depreciable capital assets:				
Buildings and improvements	3,112,216	-	-	3,112,216
Equipment and vehicles	819,072	113,394	-	932,466
Furniture and fixtures	58,197	5,221	-	63,418
Subtotal	3,989,485	118,615	-	4,108,100
Total capital assets	4,618,833	118,615	-	4,737,448
Accumulated depreciation:				
Buildings and improvements	1,644,336	79,660	-	1,723,996
Equipment and vehicles	412,272	107,678	-	519,950
Furniture and fixtures	70,622	6,130	-	76,752
Subtotal, accumulated depreciation	2,127,230	193,468	-	2,320,698
Net capital assets	\$ 2,491,603	\$ (74,853)	\$ -	\$ 2,416,750

Depreciation was charged to functions as follows:

Government activities:	
General government	\$ 58,707
Police	93,279
Public works	41,482
Total government activities depreciation expense	<u>\$ 193,468</u>

The City has no material construction commitments as of June 30, 2010.

CITY OF SEAT PLEASANT, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 6 – DEFERRED COMPENSATION PLAN

The City established in accordance with City Council approval a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan, available to all City employees, permits them to defer a portion of their salary until future years. Employees can defer any portion of their includable salaries over the plan year. The City contributes up to 2.5% of eligible employees' salaries to this plan. During fiscal year 2010 the City contributed \$8,915.

All amounts of compensation deferred under the plan and all related income are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose.

In compliance with the Internal Revenue Code Section 457(g), all assets and income of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, in accordance with Governmental Accounting Standards Board Statement No. 32, "Accounting and Financial Reporting for the Internal Revenue Code 457 Deferred Compensation Plan," the investments designated for compensation benefits are not reflected in the City's financial statements.

The Plan Administrator, Mutual of America Life Insurance Company, is the trustee.

NOTE 7 – LONG-TERM OBLIGATIONS

Governmental Activities

On May 5, 2002, the City entered into a note payable with Bank of America in the amount of \$300,000. Principal and interest payments are due in the amount of \$18,793 each year on November 5th and May 5th with the first payment due on November 5th 2004. The final payment is due on May 5th 2014. The interest rate is fixed at 4.50%. The balance outstanding as of June 30, 2010 was \$136,193.

On December 19, 2008, the City entered into a lease agreement with Suntrust Bank for the purchase of 10 police vehicles in the amount of \$350,000. The vehicles were capitalized in the amount of \$338,462 and the remaining amount held in escrow in the City's name. Monthly principal and interest payments are due in the amount of \$7,856 beginning January 19, 2009. The final payment is due December 19, 2012. The interest rate is fixed at 3.70%. The balance outstanding as of June 30, 2010 was \$224,771.

CITY OF SEAT PLEASANT, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 7 – LONG-TERM OBLIGATIONS - continued

The changes in long-term debt as of June 30, 2010 are summarized as follows:

Lender	Beginning Balance July 1, 2009	Retired During Year	New Loans During Year	Ending Balance June 30, 2010	Amount Due Within 1 Year
Bank of America	\$ 166,619	\$ 30,426	\$ -	\$ 136,193	\$ 31,810
Suntrust	309,026	84,255	-	224,771	87,425
	<u>\$ 475,645</u>	<u>\$ 114,681</u>	<u>\$ -</u>	<u>\$ 360,964</u>	<u>\$ 119,235</u>
Compensated absences	\$ 79,332	\$ -	\$ 14,658	\$ 93,990	\$ -

Interest costs charged to expense during the year ended June 30, 2010 was \$17,172.

The principal and interest requirements to maturity of the long-term debt of all funds are as follows:

Year(s) Ended June 30	Principal	Interest	Total
2011	\$ 119,235	\$ 12,619	\$ 131,854
2012	123,974	7,881	131,855
2013	81,401	3,319	84,720
2014	36,354	1,231	37,585
2015	-	-	-
	<u>\$ 360,964</u>	<u>\$ 25,050</u>	<u>\$ 386,014</u>

NOTE 8 – CONCENTRATION OF CREDIT RISK

The City derives most of its revenues, except grants, from its citizens. The City provides various services to its residents. The City is located in Prince Georges County, Maryland.

CITY OF SEAT PLEASANT, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 9 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to workers; and natural disasters.

The City has an insurance agreement with the Local Government Insurance Trust (LGIT), a public entity risk pool. LGIT provides the City's general, automobile, employee, health, police and public officials' legal liability insurance coverage. The City's commercial insurance company provides property coverage.

This is a total risk and cost sharing pool for all participants. In the event that the Trust's General Fund falls into a deficit that cannot be satisfied by transfers from the Trust's capital and surplus accounts, the Trustees shall determine a method to fund the deficit. The Trust agreement empowers the Trustees to assess an additional premium to each deficit-year participant. Debt issues could also be used to fund a deficit.

Premiums are charged to the appropriate City's General Fund, with no provision made for claim liability in addition to premiums, unless an assessment is made by the Trust.

There have been no assessments during the year ended June 30, 2010 and the amount of settlements has not exceeded coverage for each of the past three years.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Grants

The City receives grants from time-to-time. Expenditures from certain grants are subject to audit by the grantor, and the City is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the City's management, no material refunds will be required as a result of disallowed expenditures.

Litigation

In the normal course of business the City is a defendant in several lawsuits which management is vigorously defending. It is not possible at this stage to predict the outcome of these lawsuits with reasonable certainty. No provision for any liability has been made in the financial statements in respect to these lawsuits.

NOTE 11 – OTHER POST-EMPLOYMENT BENEFITS

The City does not offer other post-employment benefits as defined by Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting for Post Employment Benefit Plans Other Than Pensions" (GASB 45).

CITY OF SEAT PLEASANT, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 12 – FUND BALANCE REPORTING

GASB No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” is effective for the year ended June 30, 2011. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The City has not determined the financial statement effect of GASB No. 54.

CITY OF SEAT PLEASANT, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	Governmental Funds			
	Original Budget	Final Budget	Actual	Variance
Revenues				
Income taxes	\$ 150,000	\$ 150,000	\$ 216,348	\$ 66,348
Property taxes	2,255,834	2,255,834	2,643,817	387,983
Other taxes	3,063	3,063	2,563	(500)
Fines, licenses and permits	78,555	78,555	94,453	15,898
Interest and investment earnings	22,000	22,000	8,671	(13,329)
Charges for services	293,952	293,952	371,891	77,939
Grants and contributions	749,862	958,220	443,979	(514,241)
Other revenues	57,294	57,294	5,707	(51,587)
Total Revenues	<u>\$ 3,610,560</u>	<u>\$ 3,818,918</u>	<u>\$ 3,787,429</u>	<u>\$ (31,489)</u>
Expenditures				
General government	\$ 965,007	\$ 965,007	\$ 765,509	\$ 199,498
Public safety	1,148,660	1,148,660	965,015	183,645
Public works	965,919	1,212,254	1,061,336	150,918
Community services	101,743	101,743	85,203	16,540
Greendale Center	6,000	56,000	83,592	(27,592)
Capital outlays	395,031	307,054	118,615	188,439
Debt service - principal	28,200	28,200	114,681	(86,481)
Debt service - interest	-	-	17,172	(17,172)
Total Expenditures	<u>\$ 3,610,560</u>	<u>\$ 3,818,918</u>	<u>\$ 3,211,123</u>	<u>\$ 607,795</u>

CITY OF SEAT PLEASANT, MARYLAND
SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES - REFUSE COLLECTION
FOR THE YEAR ENDED JUNE 30, 2010

	Refuse Collection			
	Original Budget	Final Budget	Actual	Variance
Revenues				
Refuse collection fees	\$ 278,458	\$ 278,458	\$ 356,877	\$ 78,419
Total Revenues	<u>278,458</u>	<u>278,458</u>	<u>356,877</u>	<u>78,419</u>
Expenditures				
Refuse collection expenses	226,719	226,719	291,708	(64,989)
Total Expenditures	<u>226,719</u>	<u>226,719</u>	<u>291,708</u>	<u>(64,989)</u>
Excess of revenue over (under) expenditures	<u>\$ 51,739</u>	<u>\$ 51,739</u>	<u>\$ 65,169</u>	<u>\$ 13,430</u>

Note: These revenues and expenditures are included in the governmental funds on page 28.